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U.S. International Transactions: Third Quarter 2005

Current Account

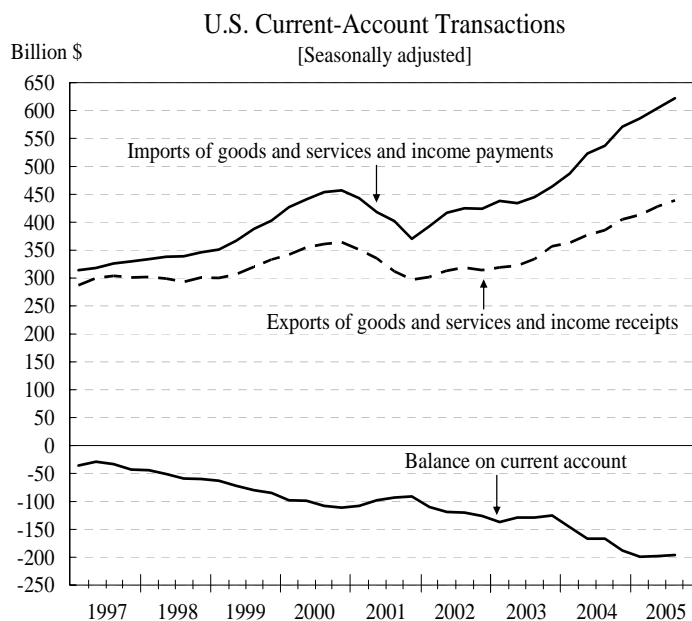
The U.S. current-account deficit--the combined balances on trade in goods and services, income, and net unilateral current transfers--decreased to \$195.8 billion (preliminary) in the third quarter of 2005 from \$197.8 billion (revised) in the second quarter. The decrease was more than accounted for by a decrease in net outflows for unilateral current transfers, a shift to a surplus on income from a deficit, and an increase in the surplus on services. In contrast, the deficit on goods increased.

Goods and services

The deficit on goods and services increased to \$182.8 billion in the third quarter from \$173.6 billion in the second.

Goods The deficit on goods increased to \$197.9 billion in the third quarter from \$186.9 billion in the second.

Goods exports increased to \$225.2 billion from \$223.5 billion. Automotive vehicles, engines, and parts, capital goods, and consumer goods more than accounted for the increase. Foods, feeds, and beverages decreased.



NOTE: This news release is available on BEA's Web site at www.bea.gov/beatrels.htm.

Goods imports increased to \$423.2 billion from \$410.5 billion. Petroleum and petroleum products accounted for eighty percent of the increase, and automotive vehicles, engines, and parts accounted for nearly all of the remainder.

Services The surplus on services increased to \$15.1 billion in the third quarter from \$13.3 billion in the second.

Services receipts increased to \$95.5 billion from \$93.7 billion. The increase was mostly attributable to increases in “other” private services (such as business, professional, and technical services, insurance services, and financial services), in transfers under U.S. military agency sales contracts, and in “other” transportation (such as freight and port services). In contrast, both travel and passenger fares decreased.

Services payments were virtually unchanged at \$80.4 billion. Decreases in travel and in passenger fares were offset by increases in other services categories, particularly in “other” private services.

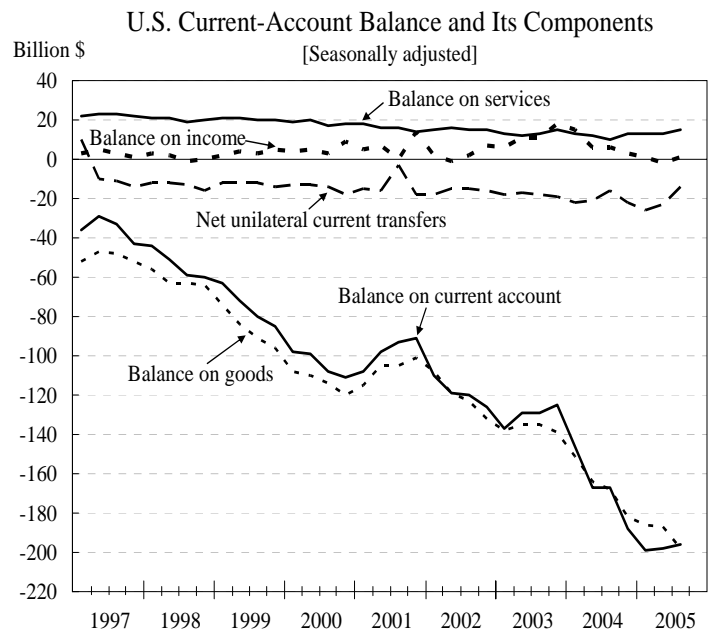
Income

The balance on income shifted to a surplus of \$0.5 billion in the third quarter from a deficit of \$1.5 billion in the second.

Investment income Income receipts on U.S.-owned assets abroad increased to \$118.0 billion from \$110.4 billion. The increase was accounted for by increases in “other” private receipts (which consists of interest and dividends) and in direct investment receipts.

Income payments on foreign-owned assets in the United States increased to \$115.9 billion from \$110.5 billion. Increases in “other” private payments (which consists of interest and dividends) and in U.S. Government payments (which consists of interest) were partly offset by a decrease in direct investment payments.

Compensation of employees Receipts for compensation of U.S. workers abroad were virtually unchanged at \$0.8 billion, and payments for compensation of foreign workers in the United States edged up to \$2.3 billion from \$2.2 billion.



Unilateral current transfers

Unilateral current transfers were net outflows of \$13.5 billion in the third quarter, down from net outflows of \$22.6 billion in the second; the decrease was more than accounted for by a decrease in “private remittances and other transfers.” The decrease in this category mostly resulted from unusually large claims received by U.S. companies from foreign insurance companies as a result of the extensive damage caused by hurricanes Katrina and Rita (see box on page 5).

Capital and Financial Account

Capital Account

Capital account transactions were net outflows of \$0.3 billion in the third quarter, unchanged from the second quarter.

Financial Account

Net recorded financial inflows--net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad--were \$272.9 billion in the third quarter, up from \$150.6 billion in the second. Financial outflows for U.S.-owned assets abroad slowed, and financial inflows for foreign-owned assets in the United States picked up.

U.S.-owned assets abroad

U.S.-owned assets abroad increased \$124.0 billion in the third quarter, following an increase of \$225.2 billion in the second.

U.S. claims on foreigners reported by U.S. banks increased \$107.9 billion in the third quarter, following an increase of \$171.0 billion in the second.

Net U.S. purchases of foreign securities were \$34.0 billion in the third quarter, down from \$42.0 billion in the second. Net U.S. purchases of foreign stocks were \$34.6 billion, up from \$23.9 billion. Transactions in foreign bonds shifted to net U.S. sales of \$0.7 billion from net U.S. purchases of \$18.1 billion.

Net financial flows for U.S. direct investment abroad shifted to net inflows of \$27.1 billion in the third quarter from net outflows of \$21.4 billion in the second. Reinvested earnings shifted to an inflow of \$27.2 billion from an outflow of \$16.0 billion, largely reflecting the drawdown of cumulative reinvested earnings in affiliates abroad to support the increased distribution of earnings to parents in the United States. Most of this drawdown was in response to the tax incentives provided by the American Jobs Creation Act of 2004 (see box on page 5). In addition, net equity capital outflows decreased, and net intercompany debt inflows increased.

U.S. official reserve assets decreased \$4.8 billion in the third quarter, in contrast to an increase of \$0.8 billion in the second.

Foreign-owned assets in the United States

Foreign-owned assets in the United States increased \$396.9 billion in the third quarter, following an increase of \$375.8 billion in the second.

U.S. liabilities to foreigners reported by U.S. banks increased \$88.7 billion in the third quarter, following an increase of \$149.1 billion in the second.

Net foreign purchases of U.S. Treasury securities were \$40.9 billion in the third quarter, up from \$9.9 billion in the second.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were a record \$160.7 billion in the third quarter, up from \$114.1 billion in the second. Net foreign purchases of U.S. stocks were \$26.6 billion, up from \$13.7 billion. Net foreign purchases of U.S. corporate bonds were \$99.5 billion, up from \$80.0 billion. Net foreign purchases of federally sponsored agency bonds were \$34.5 billion, up from \$20.4 billion.

Net financial inflows for foreign direct investment in the United States were \$38.8 billion in the third quarter, up from \$14.5 billion in the second. A shift to net inflows on intercompany debt from net outflows and an increase in net equity capital inflows were partly offset by a decrease in reinvested earnings.

Foreign official assets in the United States increased \$38.4 billion in the third quarter, following an increase of \$82.6 billion in the second.

Net U.S. currency shipments to foreigners were \$4.7 billion in the third quarter, up from \$4.5 billion in the second.

The statistical discrepancy--errors and omissions in recorded transactions--was a negative \$76.8 billion in the third quarter, compared with a positive \$47.5 billion in the second.

In the third quarter, the U.S. dollar appreciated 1 percent on a trade-weighted quarterly average basis against a group of 7 major currencies.

Special Developments in the Accounts

Insurance

The extensive damage caused by the hurricanes Katrina and Rita in the third quarter of 2005 gives rise to large net unilateral current transfers. Claims received by U.S. companies from foreign insurance companies that are in excess of “expected” claims are reflected in the private remittances and other transfers component of the net unilateral current transfers account. “Expected” claims are estimated as premiums multiplied by the historical average of claims as a percentage of premiums. In addition, donations from abroad for hurricane relief are reflected in this account. These two increases in U.S. receipts cause net unilateral current transfers to become less negative and, taken by themselves, reduce the current-account deficit in the third quarter.

Insurance services payments and receipts, which are components of other private services payments and receipts in the current account, are unaffected by the occurrence of hurricanes Katrina and Rita. This is because insurance services performed are based on premiums, and these were set before the events occurred.

U.S. direct investment abroad income and financial flows

The American Jobs Creation Act of 2004, which was signed into law on October 22, 2004, reduces the rate of taxation on U.S. multinational companies' qualifying dividends from abroad for a period of 1 year (calendar year 2004 or 2005 at taxpayers' option, for calendar year taxpayers).

In the current account, the *size* of income receipts (earnings) on U.S. direct investment abroad is unaffected by the Act, although the *composition* of earnings has been altered significantly as the amount of earnings reinvested in affiliates abroad has been drawn down to support the increased distribution of earnings to parents in the United States.

In the financial account, the reinvested earnings component of U.S. direct investment abroad has been significantly reduced as a result of the Act, resulting in smaller direct investment outflows or in inflows. The reduction in reinvested earnings in the first and second quarters led to smaller direct investment outflows, and the large reduction in reinvested earnings in the third quarter led to a shift to direct investment inflows. Depending on the method of settlement, changes in direct investment flows are balanced or offset by changes in one or more other financial account components.

Detailed estimates of direct investment transactions (including distributed and reinvested earnings) are shown in table 6a of the standard presentation of the quarterly international transactions accounts, available on BEA's Web site. It is not possible for BEA to separately identify transactions arising from the Act.

Revisions

The second-quarter international transactions are revised from previously published estimates. The current-account deficit was revised to \$197.8 billion from \$195.7 billion. The goods deficit was unrevised at \$186.9 billion; the services surplus was revised to \$13.3 billion from \$13.6 billion; the income deficit was revised to \$1.5 billion from \$0.5 billion; and unilateral current transfers were revised to net outflows of \$22.6 billion from \$21.9 billion. Net recorded financial inflows were revised to \$150.6 billion from \$142.3 billion.

* * *

Release dates in 2006:

Fourth quarter and year 2005.....	March 14, 2006 (Tuesday)
First quarter 2006.....	June 16, 2006 (Friday)
Second quarter 2006.....	September 18, 2006 (Monday)
Third quarter 2006.....	December 18, 2006 (Monday)

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Summary BEA estimates are available on recorded messages at the time of public release at the following telephone numbers:

(202) 606-5306 Gross domestic product
-5303 Personal income and outlays

BEA's national, international, regional, and industry estimates; the *Survey of Current Business*; and BEA news releases are available without charge on BEA's Web site at www.bea.gov. By visiting the site, you can also subscribe to receive free e-mail summaries of BEA releases and announcements.

Table 1. U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

	(Credits +, debits -)	2004	2004				2005			Change: 2005 II-III
			I	II	III	IV	I	II ^r	III ^p	
	Current account									
1	Exports of goods and services and income receipts.....	1,530,975	363,494	376,564	385,874	405,041	413,395	428,414	439,496	11,082
2	Exports of goods and services.....	1,151,448	277,093	285,099	290,370	298,887	306,444	317,267	320,764	3,497
3	Goods, balance of payments basis.....	807,536	193,789	200,072	204,801	208,874	213,840	223,540	225,226	1,686
4	Services.....	343,912	83,304	85,027	85,569	90,013	92,604	93,727	95,538	1,811
5	Transfers under U.S. military agency sales contracts.....	14,814	3,899	3,756	3,604	3,555	4,525	4,425	4,843	418
6	Travel.....	74,481	17,900	18,675	18,686	19,220	20,008	21,380	21,156	-224
7	Passenger fares.....	18,858	4,521	4,654	4,909	4,774	5,162	5,492	5,408	-84
8	Other transportation.....	36,862	8,907	9,188	9,124	9,643	9,859	10,115	10,518	403
9	Royalties and license fees.....	52,643	12,677	12,573	12,947	14,446	14,872	14,078	14,294	216
10	Other private services.....	145,433	35,202	35,975	36,094	38,163	37,968	38,031	39,109	1,078
11	U.S. Government miscellaneous services.....	821	198	206	205	212	210	206	210	4
12	Income receipts.....	379,527	86,401	91,465	95,504	106,154	106,951	111,147	118,732	7,585
13	Income receipts on U.S.-owned assets abroad.....	376,489	85,657	90,738	94,734	105,357	106,207	110,391	117,968	7,577
14	Direct investment receipts.....	233,067	55,096	57,053	57,863	63,053	58,180	59,635	61,787	2,152
15	Other private receipts.....	140,424	29,758	32,972	36,117	41,577	47,299	49,993	55,576	5,583
16	U.S. Government receipts.....	2,998	803	713	754	727	728	763	605	-158
17	Compensation of employees.....	3,038	744	727	770	797	744	756	764	8
18	Imports of goods and services and income payments.....	-2,118,119	-487,324	-522,684	-537,085	-571,026	-585,804	-603,554	-621,779	-18,225
19	Imports of goods and services.....	-1,769,031	-415,945	-437,141	-447,835	-468,108	-479,496	-490,866	-503,559	-12,693
20	Goods, balance of payments basis.....	-1,472,926	-345,241	-364,059	-372,576	-391,050	-400,169	-410,469	-423,151	-12,682
21	Services.....	-296,105	-70,704	-73,082	-75,259	-77,058	-79,327	-80,397	-80,408	-11
22	Direct defense expenditures.....	-29,299	-7,099	-7,399	-7,433	-7,368	-7,545	-7,491	-7,495	-4
23	Travel.....	-65,635	-15,886	-16,491	-16,603	-16,655	-17,425	-18,106	-17,337	769
24	Passenger fares.....	-23,701	-5,740	-5,882	-5,896	-6,183	-6,221	-6,536	-6,204	332
25	Other transportation.....	-54,169	-12,914	-13,158	-13,614	-14,483	-15,882	-15,115	-15,217	-102
26	Royalties and license fees.....	-23,901	-5,407	-5,731	-6,591	-6,172	-6,429	-6,147	-6,273	-126
27	Other private services.....	-95,666	-22,776	-23,492	-24,150	-25,246	-24,859	-26,051	-26,910	-859
28	U.S. Government miscellaneous services.....	-3,734	-882	-929	-972	-951	-966	-951	-972	-21
29	Income payments.....	-349,088	-71,379	-85,543	-89,250	-102,918	-106,308	-112,688	-118,220	-5,532
30	Income payments on foreign-owned assets in the United States.....	-340,255	-69,219	-83,331	-87,040	-100,666	-104,140	-110,493	-115,931	-5,438
31	Direct investment payments.....	-105,146	-20,014	-27,973	-27,520	-29,640	-29,803	-31,145	-27,078	4,067
32	Other private payments.....	-145,370	-29,040	-33,355	-36,246	-46,729	-48,333	-51,377	-58,752	-7,375
33	U.S. Government payments.....	-89,739	-20,165	-22,003	-23,274	-24,297	-26,004	-27,971	-30,101	-2,130
34	Compensation of employees.....	-8,833	-2,160	-2,212	-2,210	-2,252	-2,168	-2,195	-2,289	-94
35	Unilateral current transfers, net.....	-80,930	-22,271	-20,515	-15,771	-22,374	-26,259	-22,641	-13,538	9,103
36	U.S. Government grants.....	-23,317	-7,744	-4,961	-4,911	-5,701	-9,035	-5,724	-6,314	-590
37	U.S. Government pensions and other transfers.....	-6,264	-1,554	-1,556	-1,548	-1,607	-1,558	-1,569	-1,589	-20
38	Private remittances and other transfers.....	-51,349	-12,973	-13,998	-9,312	-15,066	-15,666	-15,348	-5,635	9,713

Table 1. U.S. International Transactions (Continued)

[Millions of dollars, quarters seasonally adjusted]

	(Credits +, debits -)	2004	2004				2005			Change: 2005
			I	II	III	IV	I	II ^r	III ^p	II-III
	Capital and financial account									
	Capital account									
39	Capital account transactions, net.....	-1,648	-428	-372	-393	-455	-4,466	-315	-311	4
	Financial account									
40	U.S.-owned assets abroad, net (increase/financial outflow (-)).....	-855,509	-295,140	-133,886	-137,525	-288,957	-81,510	-225,202	-124,020	101,182
41	U.S. official reserve assets, net.....	2,805	557	1,122	429	697	5,331	-797	4,766	5,563
42	Gold.....
43	Special drawing rights.....	-398	-100	-90	-98	-110	1,713	-97	2,976	3,073
44	Reserve position in the International Monetary Fund.....	3,826	815	1,345	676	990	3,763	-564	1,951	2,515
45	Foreign currencies.....	-623	-158	-133	-149	-183	-145	-136	-161	-25
46	U.S. Government assets, other than official reserve assets, net.....	1,215	727	-2	-11	501	4,487	971	562	-409
47	U.S. credits and other long-term assets.....	-3,044	-561	-668	-1,270	-545	-519	-708	-383	325
48	Repayments on U.S. credits and other long-term assets.....	4,221	1,374	544	1,299	1,004	1,083	1,586	961	-625
49	U.S. foreign currency holdings and U.S. short-term assets, net.....	38	-86	122	-40	42	3,923	93	-16	-109
50	U.S. private assets, net.....	-859,529	-296,424	-135,006	-137,943	-290,155	-91,328	-225,376	-129,348	96,028
51	Direct investment.....	-252,012	-52,367	-58,425	-41,222	-99,997	-26,997	-21,390	27,072	48,462
52	Foreign securities.....	-102,383	-15,532	-30,181	-38,444	-18,226	-38,675	-41,979	-33,954	8,025
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns.....	-149,001	-55,452	-5,390	-13,490	-74,669	-74,934	8,978	-14,599	-23,577
54	U.S. claims reported by U.S. banks, not included elsewhere.....	-356,133	-173,073	-41,010	-44,787	-97,263	49,278	-170,985	-107,867	63,118
55	Foreign-owned assets in the United States, net (increase/financial inflow (+)).....	1,440,105	423,023	304,937	254,228	457,915	243,451	375,816	396,919	21,103
56	Foreign official assets in the United States, net.....	394,710	147,401	77,039	75,792	94,478	25,277	82,646	38,394	-44,252
57	U.S. Government securities.....	311,133	124,010	63,456	66,899	56,768	39,244	44,068	30,122	-13,946
58	U.S. Treasury securities.....	272,648	112,586	62,977	55,357	41,728	14,306	22,448	9,651	-12,797
59	Other.....	38,485	11,424	479	11,542	15,040	24,938	21,620	20,471	-1,149
60	Other U.S. Government liabilities.....	488	-109	45	710	-158	-650	297	709	412
61	U.S. liabilities reported by U.S. banks, not included elsewhere.....	70,329	22,058	11,350	4,867	32,054	-15,843	34,190	826	-33,364
62	Other foreign official assets.....	12,760	1,442	2,188	3,316	5,814	2,526	4,091	6,737	2,646
63	Other foreign assets in the United States, net.....	1,045,395	275,622	227,898	178,436	363,437	218,174	293,170	358,525	65,355
64	Direct investment.....	106,832	8,503	31,039	35,666	31,622	35,056	14,454	38,773	24,319
65	U.S. Treasury securities.....	106,958	31,931	60,424	-1,107	15,710	75,911	9,923	40,863	30,940
66	U.S. securities other than U.S. Treasury securities.....	369,793	45,476	81,678	84,401	158,238	79,973	114,064	160,669	46,605
67	U.S. currency.....	14,827	-1,800	8,754	2,560	5,313	1,072	4,507	4,679	172
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	124,358	44,623	3,887	14,752	61,096	93,897	1,153	24,845	23,692
69	U.S. liabilities reported by U.S. banks, not included elsewhere.....	322,627	146,889	42,116	42,164	91,458	-67,735	149,069	88,696	-60,373
70	Statistical discrepancy (sum of above items with sign reversed).....	85,126	18,646	-4,044	50,672	19,856	41,193	47,482	-76,767	-124,249
	Memoranda:									
71	Balance on goods (lines 3 and 20).....	-665,390	-151,452	-163,987	-167,775	-182,176	-186,329	-186,929	-197,925	-10,996
72	Balance on services (lines 4 and 21).....	47,807	12,600	11,945	10,310	12,955	13,277	13,330	15,130	1,800
73	Balance on goods and services (lines 2 and 19).....	-617,583	-138,852	-152,042	-157,465	-169,221	-173,052	-173,599	-182,795	-9,196
74	Balance on income (lines 12 and 29).....	30,439	15,022	5,922	6,254	3,236	643	-1,541	512	2,053
75	Unilateral current transfers, net (line 35).....	-80,930	-22,271	-20,515	-15,771	-22,374	-26,259	-22,641	-13,538	9,103
76	Balance on current account (lines 1, 18, and 35 or lines 73, 74, and 75).....	-668,074	-146,101	-166,635	-166,982	-188,359	-198,668	-197,781	-195,821	1,960

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p Preliminary

NOTE: Details may not add to totals because of rounding. Source: U. S. Bureau of Economic Analysis